

Message Text

LIMITED OFFICIAL USE

PAGE 01 BRASIL 03440 01 OF 06 290850Z
ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-07 CEA-01 PA-01 EA-10 AGRE-00 AF-10
/135 W

-----109268 291219Z /23

R 281927Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7292
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY ASUNCION
AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY LA PAZ
AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 6 BRASILIA 3440

USOECD

GENEVA ALSO FOR USMTN

E.O. 11652: N/A
TAGS: ECON, EFIN, BR
SUBJ: BRAZIL'S DOCTRINE OF GRANDEZA AND THE ARITHMETIC OF GROWTH:
POSSIBILITY OF MAJOR POWER STATUS

REF: RIO DE JANEIRO A-5.

1. OVERVIEW AND SUMMARY. BRAZIL'S NATIONAL SECURITY AND
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 03440 01 OF 06 290850Z

DEVELOPMENT DOCTRINES -- WHICH MAY UNDERGO MODIFICATION IN
THE NEXT FEW YEARS IN FAVOR OF MORE EMPHASIS ON AGRICULTURE
AND INCOME DISTRIBUTION -- ENVISAGE SELF-SUFFICIENCY IN
BASIC INDUSTRIES BY THE MID-1980'S AND STATUS AS A MAJOR ECO-
NOMIC POWER BY THE END OF THE CENTURY. RECENT GERMAN AND
U.S. STATEMENTS HAVE DESCRIBED BRAZIL AS AT THE
THRESHOLD TO INDUSTRIAL POWER STATUS AND COMPARED

ITS CONDITION TO THAT OF JAPAN IN THE 1950'S. A JAPANESE OFFICIAL, DURING PRESIDENT GEISEL'S VISIT TO TOKYO IN 1976, SUGGESTED THAT BRAZIL AFFILIATE WITH THE OECD (A SUGGESTION WHICH CAUSED SOME CONSTERNATION AND EMBARRASMENT ON THE BRAZILIAN SIDE).

2. RECENT CHASE MANHATTAN BANK, WORLD BANK, AND BRAZILIAN STUDIES PROVIDE PROJECTIONS FOR THE BRAZILIAN ECONOMY THROUGH 1985, PERMITTING JUDGMENTS ABOUT THE POSSIBLE SIZE OF THE BRAZILIAN ECONOMY AND BRAZIL'S STAGE OF DEVELOPMENT BY THE END OF THE CENTURY. PRINCIPAL CONCLUSIONS ARE:

(A) IN TERMS OF THE VALUE OF ITS TOTAL PRODUCT (GDP), BRAZIL IS TRAILING THE SECOND RANK OF THE BIG SEVEN (ITALY AND CANADA), ALTHOUGH FAR AHEAD OF ANY OTHER COUNTRY IN THE WESTERN WORLD.

(B) IN TERMS OF ITS STAGE OF DEVELOPMENT, BRAZIL, REMAINS A MIDDLE INCOME COUNTRY, WITH AN AVERAGE PER-CAPITA INCOME ON THE ORDER OF DOLS 1,450, A HIGHLY UNEVEN INCOME DISTRIBUTION, AND ENORMOUS POCKETS OF POVERTY. OUTSIDE THE MORE ADVANCED URBAN AREAS, MOST SOCIAL INDICATORS REMAIN LOW, AT THE LEVEL OF UNDER-DEVELOPMENT.

(C) ENDOWED WITH A CONTINENT-SIZED ECONOMY, BRAZIL'S FOREIGN TRADE SECTOR IS RELATIVELY SMALL IN RELATION TO TOTAL PRODUCT (ROUGHLY HALF THE SIZE OF ITALY'S IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 03440 01 OF 06 290850Z

TERMS OF THE VALUE OF TOTAL TRADE); ALTHOUGH NOT INSUBSTANTIAL (DOLS 24 BILLION IN 1977), THE TRADE SECTOR IS LIKELY TO REMAIN RELATIVELY SMALL IN THE FUTURE NOTWITHSTANDING THE GOVERNMENT'S EMPHASIS ON EXPORTS.

(D) FOR THE NEXT SEVERAL YEARS, GROWTH RATES MAY REMAIN BELOW THE AVERAGE LONG-TERM GROWTH RATE OF ABOUT 7 PERCENT, TO AVOID FURTHER INCREASE IN THE DEBT-TO-EXPORT RATIO; OPINIONS ABOUT THE RESUMPTION OF HIGHER RATES IN THE 80'S DIFFER.

(E) USING CHASE MANHATTAN BANK PROJECTIONS AS REPRESENTATIVE, BRAZIL WOULD GROW AT AN AVERAGE RATE OF 6.6 AND 7.4 PERCENT OVER THE NEXT SEVEN YEARS, REACHING A GDP OF ABOUT DOLS 250 - 275 BILLION (1976 DOLLARS) BY 1985, ROUGHLY EQUAL TO THAT OF CANADA AT THAT TIME. PER-CAPITA INCOME (GDP) WOULD REMAIN SHORT OF DOLS 2,000, SOME 60 PERCENT OF ITALY'S PER-CAPITA INCOME LEVEL IN 1976 (ALL IN 1976 DOLLARS).

(F) BRAZIL'S SHARE OF WORLD TRADE, ALTHOUGH INCREASING RAPIDLY (AN ESTIMATED DOLS 69 TO 81 BILLION

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 03440 02 OF 06 290849Z
ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-07 CEA-01 PA-01 EA-10 AGRE-00 AF-10
/135 W

-----109254 291220Z /23

R 281927Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7293
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY ASUNCION
AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY LA PAZ
AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 2 OF 6 BRASILIA 3440

USOECD

GENEVA ALSO FOR USMTN

IN 1985 CURRENT DOLLARS) WOULD STILL REMAIN SUBSTANTIALLY
SHORT OF THAT OF MAJOR--OR EVEN MEDIUM-SIZED INDUSTRIAL
COUNTRIES ASSUMING EVEN A MODEST GROWTH IN WORLD TRADE
VALUE DUE TO INFLATION. HOWEVER, BRAZIL WILL HAVE AN
IMPORTANT AND EVEN STRATEGIC ROLE IN CERTAIN MAJOR COM-
MODITY MARKETS AND WILL BECOME A GROWING COMPETITOR IN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 03440 02 OF 06 290849Z

MANUFACTURED GOODS, ESPECIALLY IN THIRD WORLD MARKETS.

(G) CONVERSELY, BRAZIL SUFFERS A POTENTIALLY SERIOUS VULNERABILITY IN ITS EXCESSIVE DEPENDENCE ON IMPORTED OIL WHICH CANNOT, EVEN UNDER FAVORABLE CIRCUMSTANCES BE REMEDIED BEFORE THE LATE 1980'S AT THE EARLIEST.

(H) THE RECENT PERIOD, MARKED BY THE HIGHEST RATES OF ECONOMIC GROWTH, IS PREDICATED ON AN ECONOMIC MODEL WHICH HAS CONCENTRATED WEALTH IN THE HANDS OF A SMALL ELITE. A REACTION AGAINST THIS MODEL COULD LEAD TO POLICIES TO REDISTRIBUTE INCOME, WHICH IN TURN COULD REDUCE DOMESTIC SAVINGS RATES, INVESTMENT, AND ECONOMIC GROWTH.

(I) BRAZIL WILL NOT BE ABLE TO CATCH UP WITH THE FRG, JAPAN, AND, PRESUMABLY FRANCE, DURING THE REMAINDER OF THIS CENTURY. ASSUMING THE STEADY GROWTH AT LONG-TERM AVERAGE RATES, BRAZIL'S TOTAL PRODUCT (GDP), BY THE END OF THE CENTURY, WOULD REACH THAT OF JAPAN IN 1976, WITH AVERAGE PER CAPITA INCOME ON THE ORDER OF THAT IN THE UK TODAY.

3. IN SUMMARY, OVER THE NEXT TWENTY YEARS, BRAZIL IS LIKELY TO REACH AND SURPASS SOME OF THE BIG SEVEN IN TERMS OF THE TOTAL VALUE OF ITS PRODUCT (GDP). UNLESS POLICIES CHANGE, IT WILL HAVE THE LARGEST CONCENTRATION OF FOREIGN INVESTMENT AND EXTERNAL DEBT OUTSIDE THE MAJOR HIGHLY INDUSTRIALIZED STATES. ITS LINKAGES TO THE WORLD ECONOMY THROUGH TRADING RELATIONSHIPS WILL REMAIN RELATIVELY MODEST BECAUSE OF THE LOW RATION OF FOREIGN TRADE TO DOMESTIC PRODUCT, ALTHOUGH ITS SHARE OF WORLD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 03440 02 OF 06 290849Z

TRADE WILL BE GROWING. BRAZIL WILL WIELD INCREASED INFLUENCE INTERNATIONALLY BUT RESOURCES DEVOTED TO OVERSEAS PROGRAMS ARE LIKELY TO REMAIN MODEST -- UNLESS ITS NATIONAL SECURITY INTERESTS ARE SEEN TO BE CHALLENGED IN A MAJOR WAY -- BECAUSE OF BALANCE OF PAYMENTS CONSTRAINTS, LOW PER-CAPITA INCOME, AND INTERNAL DEVELOPMENT NEEDS. WHILE PASSING MANY COUNTRIES, BRAZIL'S HOPE TO CATCH UP WITH THE TOP GROUP AMONG THE BIG SEVEN -- THE FRG, JAPAN AND FRANCE -- REMAINS FOR THE NEXT CENTURY. FULL SOCIO-ECONOMIC DEVELOPMENT IS STILL ONE-AND-A-HALF OR TWO GENERATIONS AWAY. END SUMMARY - OVERVIEW.

4. THE AIRGRAM UNDER REFERENCE PROVIDES A COMPARISON OF RECENT STUDIES OF PROBABLE PATTERN OF BRAZILIAN ECONOMIC GROWTH THROUGH 1985. THESE STUDIES PROJECT

FUTURE RATES OF DOMESTIC SAVINGS AND INVESTMENT AND DERIVE ESTIMATES OF FUTURE GDP GROWTH, GIVEN ASSUMED VALUES OF THE INCREMENTAL CAPITAL OUTPUT RATIO. USING THE GROWTH RATES PROVIDED BY THESE STUDIES, ESTIMATES OF THE SIZE OF THE BRAZILIAN ECONOMY AND CONSEQUENTLY ITS RELATIVE IMPORTANCE IN THE WORLD ECONOMY, CAN BE CALCULATED. IN ORDER TO EXAMINE BRAZIL'S ROLE IN THE WORLD ECONOMY IN 1985, TWO GROWTH RATES FROM THE CHASE MANHATTAN PROJECTIONS (REFAIR) WERE CHOSEN, THE LOW AND MEDIUM OPTIONS (C-2 AND C-3), WITH REAL AVERAGE GROWTH RATES OF 6.65 PERCENT AND 7.40 PERCENT RESPECTIVELY.

5. THESE RATES WERE SELECTED BECAUSE OF THE TRADE-OFF, CITED IN THE AIRGRAM, BETWEEN RATES OF ECONOMIC GROWTH AND MAINTENANCE OF EXTERNAL DEBT AT MANAGEABLE LEVELS. THE LOW ESTIMATE OF ECONOMIC GROWTH (C-2)

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 03440 03 OF 06 290850Z
ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 EA-10 AID-05
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 PA-01 AGRE-00 AF-10
/135 W

-----109273 291220Z /23

R 281927Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7294
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY ASUNCION
AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY LA PAZ
AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 3 OF 6 BRASILIA 3440

USOECD

GENEVA ALSO FOR USMTN

FORESEES BRAZIL'S DEBT SERVICE RATIO (THE RELATIONSHIP BETWEEN AMORTIZATION AND INTEREST TO EXPORTS) GOING FROM 50 PERCENT IN 1977 TO 51 PERCENT IN THE 1978-80 PERIOD AND DECLINING TO 35 PERCENT BY 1985. CHASE MANHATTAN'S HIGH AVERAGE REAL GROWTH RATE PROJECTION (C-4, 8.6 PERCENT) WAS REJECTED FOR THE PURPOSES OF THIS ANALYSIS BECAUSE IT WOULD RESULT IN A DEBT SERVICE RATIO OF 67 PERCENT IN 1985. THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 03440 03 OF 06 290850Z

EMBASSY BELIEVES THAT BRAZILIAN ECONOMIC AUTHORITIES WILL ACCEPT A SOMEWHAT SLOWER ECONOMIC GROWTH PATH IN ORDER TO LIMIT FOREIGN BORROWING AND REDUCE THE BURDEN OF BRAZIL'S EXTERNAL DEBT.

6. AT THE END OF 1977 BRAZILIAN GDP STOOD AT APPROXIMATELY DOLS 152 BILLION IN 1976 DOLLARS, ONLY SOMEWHAT SMALLER THAN THE SECOND RANK POWERS AMONG THE BIG SEVEN SUCH AS THE U.K. (DOLS 218 BILLION), CANADA (DOLS 193 BILLION) AND ITALY (DOLS 162 BILLION). OF COURSE, BRAZIL RANKED WELL BELOW MAJOR NON-U.S. POWERS OF THE WORLD ECONOMY SUCH AS JAPAN (DOLS 561 BILLION) AND GERMANY (475 BILLION). ON THE OTHER HAND, IN TERMS OF THE ABSOLUTE SIZE OF ITS ECONOMY, BRAZIL IS ALREADY WELL AHEAD OF ALL OTHER WESTERN COUNTRIES, INCLUDING AUSTRALIA (86 BILLION), SPAIN (102 BILLION) AND INDIA (77 BILLION). ALTHOUGH BRAZIL'S TOTAL GDP APPROACHED THAT OF SOME OF THE INDUSTRIALIZED ECONOMIES, ITS LINKAGES TO THE WORLD ECONOMY AND STAGE OF DEVELOPMENT ARE OVERSTATED BY THIS FIGURE. A CONTINENT-SIZED ECONOMY, BRAZIL'S FOREIGN TRADE SECTOR IS SMALL, BOTH RELATIVE TO GDP AND IN ABSOLUTE TERMS, BY THE STANDARDS OF HIGHLY INDUSTRIALIZED COUNTRIES. IN 1977, BRAZIL'S FOREIGN TRADE (EXPORTS PLUS IMPORTS) OF ABOUT DOLS 24 BILLION AMOUNTED TO LESS THAN ONE THIRD OF THAT OF ITALY OR CANADA. AS A PERCENTAGE OF GDP, BRAZIL'S FOREIGN TRADE SECTOR (17 PERCENT) WAS WELL BELOW THAT OF THE UK (47 PERCENT), ITALY (46 PERCENT) OR CANADA (41 PERCENT).

7. COMPARISONS OF TOTAL GDP CAN ALSO BE MISLEADING IN ASSESSING THE CURRENT STATE OF DEVELOPMENT OF THE BRAZILIAN ECONOMY. BRAZIL'S PER CAPITA INCOME IN 1977 STOOD AT APPROXIMATELY 1,450 DOLLARS, SOME ONE THIRD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 03440 03 OF 06 290850Z

OF THAT OF THE UK, AND ALSO WELL BELOW THAT OF OTHER FULLY INDUSTRIALIZED COUNTRIES. THIS LOWER LEVEL OF PER CAPITA INCOME IS AGGRAVATED BY A SKEWED INCOME DISTRIBUTION WHICH LEAVES MANY REGIONS OF THE COUNTRY AT THIRD WORLD LEVELS OF POVERTY AND ISOLATED FROM THE EFFECTS OF ECONOMIC GROWTH IN THE MORE DYNAMIC SECTORS AND REGIONS.

8. AT THE LOW AND MEDIUM CHASE MANHATTAN PROJECTION OF REAL ECONOMIC GROWTH, BRAZIL'S GDP SHOULD REACH BETWEEN DOLS 250 AND 275 BILLION IN 1976 DOLLARS BY 1985. THE LOW PROJECTION, PERHAPS THE MORE REALISTIC, WOULD PUT TOTAL BRAZILIAN PRODUCTION AT APPROXIMATELY 45 PERCENT OF JAPAN'S GDP IN 1976 OF ABOUT DOLS 560 BILLION, 75 PERCENT OF BRANCE'S 1976 GDP OF DOLS 333 BILLION AND SOMEWHAT ABOVE THE UNITED KINGDOM'S 1976 GDP OF DOLS 218 BILLION. THE RELATIVE SIZE OF THE BRAZILIAN ECONOMY IN 1985 COULD PROBABLY BE BEST COMPARED TO THAT OF CANADA. ASSUMING A FOUR PERCENT REAL GROWTH RATE, THE CANADIAN ECONOMY IN 1985 WOULD REGISTER A GDP ON THE ORDER OF DOLS 275 BILLION IN 1976 DOLLARS. BUT WHILE IN TERMS OF TOTAL PRODUCTION BRAZIL MAY REACH TWO OF THE BIG SEVEN (ITALY, CANADA). BRAZIL'S PER CAPITA INCOME WILL REMAIN MUCH LOWER. ACCORDING TO PRESENT RATES OF POPULATION GROWTH (2.8 PERCENT), THE ESTIMATES OF BRAZILIAN GDP WOULD IMPLY A PER CAPITA INCOME IN 1985 BETWEEN DOLS 1,770 AND DOLS 1,950 IN 1976 DOLLARS. THE LOWER FIGURE WOULD AMOUNT TO ABOUT 62 PERCENT OF ITALY'S PER CAPITA INCOME OF DOLS 2,890 AND 45 PERCENT OF THE

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 03440 04 OF 06 291124Z
ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 EA-10 AID-05
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 PA-01 AGRE-00 AF-10
/135 W

-----111411 291221Z /23

R 281927Z APR 78

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7295
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY ASUNCION
AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY LA PAZ
AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 4 OF 6 BRASILIA 3440

USOECD

GENEVA ALSO FOR USMTN

U.K.'S \$3,920 IN 1976 DOLLARS.

9. ACCORDING TO CHASE MANHATTAN ESTIMATES (IN THIS CASE THE LOW GROWTH PROJECTION), BRAZILIAN PARTICIPATION IN WORLD TRADE SHOULD INCREASE DRAMATICALLY OVER THE NEXT EIGHT YEARS. IN CURRENT DOLLARS BRAZILIAN EXPORTS WOULD INCREASE FROM \$12.2 BILLION IN 1977 TO \$39.9 BILLION IN 1985, WHILE OVER THE SAME PERIOD
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 03440 04 OF 06 291124Z

IMPORTS WOULD INCREASE FROM \$12.0 BILLION TO \$32.5 BILLION. (THE MOST RECENT WORLD BANK STUDY PROJECTS THE POSSIBILITY OF EVEN STEEPER INCREASES TO \$43 BILLION AND \$38 BILLION RESPECTIVELY.) IN 1976 DOLLARS, BY 1985 BRAZILIAN EXPORTS WOULD INCREASE AT A 15.2 PERCENT REAL RATE PER YEAR TO \$25.7 BILLION AND IMPORTS BY A 10.5 PERCENT REAL RATE TO \$20.0 BILLION. TOTAL TRADE VOLUME WOULD INCREASE BY 12.3 PERCENT PER YEAR TO \$45.7 BILLION. ALTHOUGH THESE GAINS IN TRADE WOULD BE IMPRESSIVE, THE 1985 TOTALS WOULD REMAIN BELOW CURRENT LEVELS IN THE INDUSTRIALIZED WORLD. IN 1976 ITALIAN EXPORTS WERE \$35 BILLION AND IMPORTS \$39 BILLION, GIVING A TOTAL TRADE VOLUME OF \$74 BILLION WHICH IS ABOUT ONE AND A HALF TIMES THE PROJECTED 1985 FIGURE (IN 1976 DOLLARS) FOR BRAZIL. CANADIAN EXPORTS IN 1976 STOOD AT APPROXIMATELY 39.7 BILLION DOLLARS AND IMPORTS AT 38.6 BILLION DOLLARS, GIVING A TRADE VOLUME OF 78 BILLION. IT SHOULD BE NOTED, HOWEVER, THAT MUCH OF CANADA'S INTERNATIONAL TRADE IS INTER-BORDER TRADE WITH THE U.S. AND ITALY'S

TRADE IS HEAVILY WEIGHTED TOWARD THE EEC. BRAZILIAN TRADE, ALTHOUGH RELATIVELY SMALL, MAY BE MORE POLITICALLY SENSITIVE.

10. ACCEPTING CHASE MANHATTAN ESTIMATED (IN THE TRADE AREA BOTH THE CHASE AND WORLD BANK FIGURES MAY BE OPTIMISTIC), IN 1985 BRAZIL WOULD REMAIN A RELATIVELY SMALL BUT GROWING PARTICIPANT IN WORLD TRADE. ASSUMING A CONSERVATIVE REAL GROWTH RATE OF 1.3 PERCENT IN WORLD TRADE UNTIL 1985 (BASED ON RECENT TRENDS), BRAZIL WOULD INCREASE ITS PERCENTAGE OF TOTAL WORLD TRADE VOLUME FROM ITS CURRENT POSITION OF APPROXIMATELY 1.2 TO 2.3 PERCENT, WITH EXPORTS GOING FROM 1.1 TO 2.5
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 03440 04 OF 06 291124Z

PERCENT OF WORLD EXPORTS AND IMPORTS FROM 1.3 TO 2.0 PERCENT. THE EXPECTED FIGURE OF 2.3 PERCENT OF TOTAL WORLD TRADE COMPARES TO ITALY'S FIGURE OF 4.4 PERCENT IN 1976 -- CANADA'S 4.5 PERCENT, IRAN'S 2 PERCENT, JAPAN'S 7.2 PERCENT OR THE 1976 U.S. FIGURE OF 13.3 PERCENT.

11. THE PROJECTED GDP GROWTH CEILING OF 7 PERCENT THROUGH 1985, CITED IN THE AIRGRAM UNDER REFERENCE, FALLS WELL SHORT OF THE AVERAGE GROWTH RATE OF 11.5 PERCENT DURING THE PRE-OIL CRISIS YEARS OF 1968-1973, BUT IS CONSISTENT WITH THE 7.4 PERCENT AVERAGE OBTAINED FROM 1974-1977. (THE HISTORIC AVERAGE GROWTH RATE -- 1948 TO 1974 -- IS 7.1 PERCENT; A SIMILAR AVERAGE RATE PREVAILS FOR THE LAST SIXTY YEARS.) THERE ARE TWO MAJOR POLICY GOALS OF THE GOB THAT WILL HINDER EFFORTS TO INCREASE GROWTH TO HIGHER LEVELS IN THE NEAR AND POSSIBLY MEDIUM TERM: THE FIGHT AGAINST INFLATION AND CONSERVATIVE DEBT MANAGEMENT. IN THE SHORT RUN, THE GOB IS PREOCCUPIED BY THE PROBLEM OF INFLATION. IT SLOWED ECONOMIC GROWTH TO A REAL RATE OF 5 PERCENT IN 1977 AND PLANS TO MAINTAIN THIS RATE OF EXPANSION IN 1978. ACCORDING TO THE CHASE MANHATTAN ESTIMATES (BASED ON REAL EXPORT GROWTH PER ANNUM OF 16 PERCENT) EVEN OVER THE LONGER TERM, THROUGH 1985, ASPIRATIONS FOR HIGH RATES OF GDP GROWTH ARE LIKELY TO COME IN CONFLICT WITH EFFORTS TO REDUCE THE BURDEN OF BRAZIL'S EXTERNAL DEBT, AS EFFORTS TO FINANCE INVESTMENTS NECESSARY FOR REAL

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 03440 05 OF 06 291203Z
ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 AID-05 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00
XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05
SS-15 STR-07 CEA-01 PA-01 AGRE-00 EA-10 /125 W
-----111854 291222Z /23

R 281927Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7296
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY ASUNCION
AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY LA PAZ
AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 5 OF 6 BRASILIA 3440

USOECD

GENEVA ALSO FOR USMTN

EXPANSION OF OUTPUT REQUIRE CONTINUED LARGE-SCALE
RELIANCE ON INTERNATIONAL MONEY MARKETS. (THE WORLD
BANK STUDY, ON THE OTHER HAND, ENVISAGES THE POSSIBILITY
OF THE RESUMPTION OF MORE RAPID ECONOMIC GROWTH IN THE
1980'S, IN LINE WITH ITS HIGHER PROJECTIONS OF EXPORT
GROWTH. NON-OFFICIAL BRAZILIAN STUDIES, WHILE GIVING
LOWER RATES OF EXPORT GROWTH, ENVISAGE THE POSSIBILITY
OF MORE RAPID GROWTH BASED ON A HIGHER EXTERNAL DEBT.)

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 03440 05 OF 06 291203Z

12. DESPITE EMPHASIS ON EXPORTS AND FOREIGN INVESTMENT
AS AN IMPETUS FOR ECONOMIC DEVELOPMENT DURING THE LATE
1960'S AND EARLY 1970'S, BRAZIL'S PARTICIPATION IN THE
INTERNATIONAL ECONOMY IN TERMS OF FOREIGN TRADE, IS
RELATIVELY SMALL COMPARED TO MOST INDUSTRIALIZED

NATIONS. AN APPARENT CHARACTERISTIC OF GEOGRAPHICALLY AND DEMOGRAPHICALLY LARGE ECONOMIES, BRAZIL'S FOREIGN TRADE SECTOR ONLY CONSTITUTED 16.6 PERCENT OF BRAZILIAN GDP IN 1977. ACCORDING TO THE CHASE ESTIMATES, BRAZILIAN RELIANCE ON FOREIGN COMMERCE WILL ONLY INCREASE SLIGHTLY, TO 18.5 PERCENT IN 1985.

13. BRAZIL'S ROLE AS A RECIPIENT OF FOREIGN INVESTMENT AND PRIVATE BANK LOANS IS PERHAPS MORE INFLUENTIAL THAN ITS DIRECT ROLE IN FOREIGN TRADE. TOTAL FOREIGN INVESTMENTS IN BRAZIL ACCORDING TO CENTRAL BANK FIGURES ARE VALUED AT APPROXIMATELY 9.8 BILLION DOLLARS, OF WHICH U.S. DIRECT INVESTMENT ACCOUNTS FOR ABOUT 3.1 BILLION OR 32 PERCENT. ACCORDING TO DEPARTMENT OF COMMERCE FIGURES U.S. DIRECT FOREIGN INVESTMENT IN BRAZIL CONSTITUTES ABOUT 3.9 PERCENT OF THE U.S. TOTAL ON A WORLD WIDE BASIS. BRAZIL'S TOTAL FOREIGN DEBT AT THE END OF 1976 RANKED THE SECOND HIGHEST IN THE WORLD (AFTER CANADA AND CLOSELY FOLLOWED BY MEXICO AND FRANCE) ACCORDING TO ONE COMPARATIVE STUDY. AT THE END OF 1977 BRAZIL'S TOTAL FOREIGN DEBT (PUBLIC AND PRIVATE) WAS AN ESTIMATED DOLS 31.2 BILLION. AMONG BORROWERS FROM U.S. PRIVATE BANKS, BRAZIL'S TOTAL OUTSTANDING BORROWING OF APPROXIMATELY 10.6 BILLION AS OF JUNE 1977 RANKED BEHIND ONLY THE U.K. (25.1 BILLION), JAPAN (11.7 BILLION) AND MEXICO (11.3 BILLION). THE IMPORTANCE OF BRAZIL AS A RECIPIENT OF FOREIGN FINANCING IS LIKELY TO CONTINUE IN THE FUTURE AS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 03440 05 OF 06 291203Z

BRAZIL WILL CONTINUE TO REQUIRE FOREIGN CAPITAL FOR EXPANSION OF NATIONAL OUTPUT. HOWEVER, PROJECTIONS OF FUTURE LEVELS OF FOREIGN CAPITAL INFLOW WILL DEPEND ON BRAZILIAN ECONOMIC POLICIES, PARTICULARLY AS REGARDS GOB CHOICE OF APPROPRIATE RATES OF ECONOMIC GROWTH. THE ANALYSIS USED IN PRODUCING THE EARLIER PROJECTIONS ASSUME BRAZILIAN POLICY MAKERS ARE WILLING TO ACCEPT A SLOWER GROWTH PATH TO REDUCE, IN A RELATIVE SENSE, ITS DEPENDENCE ON FOREIGN CAPITAL.

14. ALTHOUGH BRAZIL'S ROLE IN WORLD TRADE IS RELATIVELY SMALL COMPARED TO THE INDUSTRIALIZED COUNTRIES AND IS LIKELY TO REMAIN SO OVER THE FORESEEABLE FUTURE, BRAZIL DOES PLAY A KEY ROLE IN SPECIFIC INTERNATIONAL MARKETS, SUCH AS THE AGRICULTURAL AND MINERAL SECTORS AND, INCREASINGLY, IN COMPETING FOR EXPORT MARKETS FOR ITS MANUFACTURED PRODUCTS, PARTICULARLY IN THE DEVELOPING WORLD. BRAZIL CURRENTLY ASSERTS INFLUENCE IN THE WORLD COFFEE, SOYBEAN, COCOA, AND SUGAR MARKETS IN THE AGRICULTURAL SECTOR AND IN THE IRON ORE AND

MANGANESE MARKETS IN THE MINERAL SECTOR. BRAZILIAN
INFLUENCE IN THESE MARKETS WILL CONTINUE AND BRAZIL
SHOWS PROMISE OF ASSERTING STRONG INFLUENCE IN THE
COARSE GRAINS MARKET (CORN) AND IN BAUXITE AND
NICKEL. AS REGARDS EXPORTS OF THE MANUFACTURED
GOODS, BRAZIL HAS REGISTERED SOME OF THE HIGHEST
GROWTH RATES IN THAT SECTOR, AGGRESSIVELY OPENING

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BRASIL 03440 06 OF 06 291202Z
ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 IO-13 ISO-00 EA-10 AID-05
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 ICA-11
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
NSC-05 SS-15 STR-07 CEA-01 PA-01 AGRE-00 AF-10
/135 W

-----111799 291219Z /23

R 281927Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7297
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY CARACAS
AMEMBASSY ASUNCION
AMEMBASSY MONTEVIDEO
AMEMBASSY SANTIAGO
AMEMBASSY LA PAZ
AMEMBASSY PARIS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 6 OF 6 BRASILIA 3440

USOECD

GENEVA ALSO FOR USMTN

NEW MARKETS, AND MAY PROVIDE SIGNIFICANT COMPETITION
FOR THE INDUSTRIAL POWERS IN THE LESS DEVELOPED
COUNTRIES, PARTICULARLY IN LATIN AMERICA AND PERHAPS
AFRICA.

15. ASIDE FROM ITS EXTERNAL DEBT, BRAZIL FACES A

NUMBER OF UNCERTAINTIES WHICH COULD IMPEDE FUTURE
ECONOMIC GROWTH RATES: DEPENDENCE ON IMPORTED OIL,
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BRASIL 03440 06 OF 06 291202Z

DOMESTIC PROTECTIONIST AND INTERVENTIONIST POLICIES,
AND AN INTERNAL DEBATE ON INCOME REDISTRIBUTION. BRA-
ZIL IMPORTED NEARLY 3.5 BILLION DOLLARS (ON A NET BASIS)
OF PETROLEUM AND PETROLEUM DERIVATIVES IN 1977, A REFLECTION OF
THE FACT THAT BRAZIL PRODUCES ONLY 17 PERCENT OF ITS
OVERALL CONSUMPTION REQUIREMENT. IN SPITE OF A VIGOROUS
OIL CONSERVATION PROGRAM AND NEW PROMISING OFFSHORE
AREAS, DECLINING DOMESTIC PRODUCTION MAKES IT UNLIKELY
THAT BRAZILIAN DEPENDENCE WILL BE REMEDIED DURING THE
1980'S. WITH PETROLEUM DERIVATIVES ACCOUNTING FOR
40-45 PERCENT OF BRAZIL'S TOTAL ENERGY CONSUMPTION,
ANY DISTURBANCE ON WORLD OIL MARKETS WILL SERIOUSLY
AFFECT BRAZILIAN ECONOMIC PROSPECTS. AT LEAST PARTIALLY
DUE TO THE SHOCK OF THE OIL PRICE INCREASES IN 1973,
BRAZILIAN ECONOMIC AUTHORITIES IMPOSED STRINGENT IMPORT
RESTRICTIONS AND ATTEMPTED TO MAINTAIN ECONOMIC GROWTH
BY CHANNELING INVESTMENT FUNDS THROUGH LARGE STATE ENTER-
PRISES AND STATE-OWNED BANKS. THE RESULTING DISTORTIONS
ACCOMPANYING THESE POLICIES -- INCREASED MANUFACTURING
COSTS AND LESS EFFICIENT RESOURCE ALLOCATION -- WILL
CAUSE SERIOUS ECONOMIC DIFFICULTIES IF CONTINUED OVER
THE LONG RUN. ALTHOUGH THE IMPORT RESTRICTIONS WERE
CONSIDERED "TEMPORARY MEASURES" WHEN FIRST ANNOUNCED,
SOME HAVE NOW BEEN IN PLACE OVER THREE YEARS AND HAVE
BEGUN TO SHOW SIGNS OF BECOMING ENTRENCHED DUE TO THE
POLITICAL INFLUENCE OF VESTED INTEREST. IN ADDITION,
THE STATE ENTERPRISES HAVE DEVELOPED A BUREAUCRATIC
MOMENTUM OF THEIR OWN, DESPITE AN ACTIVE PUBLIC DEBATE
OVER THE STATE'S ROLE IN THE ECONOMY, AND MAY PROVE
DIFFICULT TO CURB. FINALLY, THE CONCENTRATION OF
INCOME, ACCRUING FROM THE SAME ECONOMIC MODEL THAT
HAS GENERATED RAPID ECONOMIC GROWTH, HAS PROMPTED A
STRONG INTERNAL DEBATE OVER INCOME REDISTRIBUTION.
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BRASIL 03440 06 OF 06 291202Z

ANY LARGE SCALE AND EFFECTIVE REDISTRIBUTION SCHEME
COULD REDUCE DOMESTIC SAVINGS AND RESULT IN EITHER
A REDUCTION IN INVESTMENT OR EVEN GREATER RELIANCE ON
EXTERNAL SAVINGS.

16. CONCLUSION. ALTHOUGH BRAZIL'S RELATIVE IMPORTANCE
IN THE WORLD ECONOMY HAS INCREASED SUBSTANTIALLY OVER

THE PAST TEN YEARS, AND SHOWS PROMISE OF BECOMING MUCH STRONGER IN THE FUTURE, BRAZIL STILL HAS A LONG WAY TO GO TO BECOME A WORLD ECONOMIC POWER. ASSUMING A 7 PERCENT REAL LONG-TERM GROWTH RATE AND A SLOWDOWN IN POPULATION GROWTH, IN THE YEAR 2000 BRAZIL'S ECONOMY SHOULD BE ROUGHLY THE SIZE OF JAPAN'S AND WITH A PER CAPITA INCOME LEVEL OF THE U.K. A QUARTER OF A CENTURY EARLIER. ASSUMING ANY REASONABLE RATE OF GROWTH ON THE PART OF OECD NATIONS, IN A RELATIVE SENSE BRAZIL WILL CONTINUE TO TRAIL THE TOP GROUP OF THE BIG SEVEN -- THE FRG, JAPAN, AND FRANCE - IN TERMS OF ITS TOTAL PRODUCT. A LOWER PER-CAPITA INCOME (COMPARED TO HIGHLY INDUSTRIALIZED STATES) AND EXTRAORDINARY INTERNAL DEVELOPMENT NEEDS WILL KEEP BRAZIL A "MIDDLE INCOME" COUNTRY FOR THE REST OF THE CENTURY. THE RELATIVELY SMALL SIZE OF ITS FOREIGN TRADE SECTOR WILL KEEP BRAZIL'S ROLE A MODEST ONE ON THE WORLD MARKET. THE VALUE OF FOREIGN INVESTMENT IN BRAZIL, ON THE OTHER HAND, LIKELY WILL CONTINUE TO INCREASE DECIDEDLY, RESULTING IN ONE OF THE LARGEST CONCENTRATION OF FOREIGN INVESTMENT OUTSIDE THE HIGHLY INDUSTRIALIZED STATES. EVEN WITH STEADY GROWTH, TO CORRECT EXISTING SOCIO-ECONOMIC DEFICIENCIES WILL REQUIRE ANOTHER ONE-AND-A-HALF TO TWO GENERATIONS. HOWEVER, IN PARTICULAR SECTORS, PRINCIPALLY IN AGRICULTURE AND MINERALS, BRAZIL WILL CONTINUE TO ASSERT A STRONG AND GROWING INFLUENCE ON INTERNATIONAL MARKETS. WHILE BRAZIL'S INTERNATIONAL INFLUENCE WILL BE GROWING, GIVEN LOW PER-CAPITA IN-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BRASIL 03440 06 OF 06 291202Z

COME AND INTERNAL DEVELOPMENT NEEDS, RESOURCES TO SUPPORT OVERSEAS PROGRAMS, ALTHOUGH THEY MIGHT BE SIGNIFICANT IN ABSOLUTE TERMS, WILL REMAIN RELATIVELY MODEST, UNLESS BRAZIL COMES TO SEE ITS BASIC SECURITY INTERESTS THREATENED IN SOME MAJOR WAY.
JOHNSON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL SUMMARIES
Control Number: n/a
Copy: SINGLE
Draft Date: 28 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL03440
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780183-1008
Format: TEL
From: BRASILIA OECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978047/aaaaaezl.tel
Line Count: 751
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 33a461b2-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 14
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 RIO DE JANEIRO A-5
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3005780
Secure: OPEN
Status: NATIVE
Subject: BRAZIL'S DOCTRINE OF GRANDEZA AND THE ARITHMETIC OF GROWTH: POSSIBILITY OF MAJOR POWER STATUS
TAGS: ECON, EFIN, PGOV, BR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/33a461b2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014